LEMON GROVE SANITATION DISTRICT
AGENDA ITEM SUMMARY

Item No. 3
Mtg. Date May 15, 2018
Dept. Public Works

Item Title: **Public Hearing to Consider the Approval of the Sewer Capacity Fee Increase from $1,000 to $3,509 Effective July 1, 2018**

Staff Contact: Mike James, Assistant City Manager / Public Works Director

Recommendation:

1. Conduct the public hearing; and
2. Adopt a resolution (**Attachment B**) approving the sewer capacity fee increase from $1,000 to $3,509 effective July 1, 2018.

Item Summary:

In February 2017, the District Board received a report regarding the progress of NBS Consultants (NBS) regarding the sewer rate study. A component of that presentation recommended the need to review the sewer capacity fee (or connection fee) to determine if it accurately and fairly charged a fee to fund any capacity increasing needs that the District will construct in the future. At the conclusion of that presentation, the District Board directed staff to work with NBS to complete the study and return with the results.

In November 2017, the final report was presented to the District Board for review and acceptance. The report was accepted and staff was directed to move forward with a public workshop process as well as to return with an implementation process to consider the sewer capacity fee.

The staff report (**Attachment A**) outlines all prior steps completed to date, information about the public workshop, and concludes with staff's recommendation to conduct a public hearing to consider the adoption of a resolution (**Attachment B**) approving the sewer capacity fee increase from $1,000 to $3,509 effective July 1, 2018.

Fiscal Impact:

If approved, the new sewer capacity fee will increase from $1,000 to $3,509 effective July 1, 2018.

Environmental Review:

- ☒ Not subject to review
- ☐ Negative Declaration
- ☐ Categorical Exemption, Section
- ☐ Mitigated Negative Declaration

Public Information:

- ☐ None
- ☐ Newsletter article
- ☐ Notice to property owners within 300 ft.
- ☒ Notice published in local newspaper
- ☐ Neighborhood meeting

Attachments:

A. Staff Report
B. Resolution
C. NBS Capacity Fee Study (November 10, 2017)
D. Public Workshop Written Response

LEMON GROVE SANITATION DISTRICT
STAFF REPORT

Item No. 3

Mtg. Date May 15, 2018

Item Title: **Public Hearing to Consider the Approval of the Sewer Capacity Fee Increase from $1,000 to $3,509 Effective July 1, 2018**

Staff Contact: Mike James, Assistant City Manager / Public Works Director

Discussion:

In February 2017, the District Board received a report regarding the progress of NBS Consultants (NBS) regarding the sewer rate study. A component of that presentation recommended the need to review the capacity fee (or connection fee) to determine if it accurately and fairly charged a fee to fund any capacity increasing needs that the District will construct in the future. At the end of that presentation, the District Board directed staff to work with NBS to complete the study and return with the results.

Capacity Fee Details:

The current capacity fee, which was first established in 1981, for the District is $1,000. When compared to the other 12-member cities of the Metro Wastewater Joint Powers Authority the District's capacity fee is the lowest with the second lowest and highest fees equivalent to $2,500 and $9,665.

District customers are typically charged a one-time capacity fee per equivalent dwelling unit (EDU) at the time the customer connects or expands on its existing connection to the District's sewer system. The capacity fee requires new customers to pay for their share of costs to construct facilities required to provide their sewer service or in the case of increased density their increased intensity of use. Revenues generated through capacity fees can be used to directly offset system expansion costs and/or for renewal and replacement capital projects. Use of capacity fee revenues to offset these CIP costs reduces the amount of revenue required from rates assessed to existing users. This way capacity fee revenues, in effect, reimburse existing users (through lower rates) for costs they have incurred to build and maintain capacity for new users to connect to the District's sewer system.

An agency can establish its capacity fee up to the maximum amount determined by an analysis. However, an agency can choose to adopt a lower capacity fee should it choose.

Study Considerations:

NBS considered three methodologies to update the capacity fee:

1. *Buy-In Method*: Based on the value of the existing system's capacity.
2. *Incremental Cost Method*: Based on the value or cost to expand the existing system's capacity.
3. *Combined Approach*: Based on a blended value of existing and expanded system capacity.

For this analysis, NBS and District staff selected the combined approach to best realize a fair and accurate capacity fee. Once the methodology was selected, NBS moved forward to review the projected customer growth and capacity needs, considered the costs to construct those

improvements at that time, and calculated the fee that will adequately afford to fund any future capacity fee increasing costs.

The final report (**Attachment C**) details the specific customer growth estimates and anticipated capacity increasing needs that will be required to accommodate that growth which all support the recommendation to update the capacity increase from a current fee of $1,000 to $3,509.

Capacity Fee Implementation Process:

The new capacity fee, if approved, will increase the existing capacity fee from $1,000 to $3,509 per equivalent dwelling unit (EDU). For comparison, in Fiscal Years 2016-2017 and 2017-2018 the District generated $32,160 (based on 32.16 EDUs) and $14,000 (based on 14 EDUs) in capacity fees each year. If the maximum base capacity fee of $3,509 were implemented in the prior years, the fees would have equaled $112,849.44 and $49,126.

In November 2017, the final report was presented to the District Board for review and acceptance. The report was accepted and staff was directed to move forward with a public workshop process as well as to return with an implementation process to consider the sewer capacity fee. Prior to the public workshop, on April 2, 2018, District staff met with a representative of the Building Industry Association (BIA) to discuss the amount of the capacity fee proposed increase, when the increase will be considered by the District Board, and what may be a concern(s) from the BIA. The BIA shared with staff that the amount of the fee was a concern but not the chief concern. The chief concern, was the amount of time that a developer has to spend navigating the planning/construction process. Understanding the importance of streamlining the plan review process, staff shared the current estimated review process could be as short as 6 months to as long as 16 months.

On April 16, 2018, District staff hosted a public workshop to explain what the connection fee is, how it is collected and what it is used for. Furthermore, this was an opportunity for any member of the public to pose questions to staff regarding the fee. One attendee attended the workshop that evening and he prepared a written response to District staff which is enclosed as a part of this staff report (**Attachment D**). Other than that written response, District staff has not received any additional feedback.

Alternative:

The final report (**Attachment C**) which was reviewed and accepted by the District Board recommends that the capacity fee is increased from $1,000 to $3,509 at one time.

As read in **Attachment D**, the idea of a three year gradual increase was recommended to help promote infill development because of the advertised fee. After reading the observations and recommendation, staff maintains the original recommendation to move forward with a single increase next fiscal year. The final amount is still relatively low when compared to other jurisdictions in the region, and it will continue to build the capacity fee fund to support all capacity fee increasing projects.

Public Information:

1. On April 16, 2018, at 6:00 p.m., District staff held a public workshop where one person attended; and
2. On May 3, 2018 and May 10, 2018, District staff advertised a notice of public hearing in the East County Californian.

Conclusion:

Staff recommends that the District Board conducts a public hearing and adopts a resolution (**Attachment B**) approving the sewer capacity fee increase from $1,000 to $3,509 effective July 1, 2018.

Attachment B

RESOLUTION NO. 2018 -

RESOLUTION OF THE DISTRICT BOARD OF THE LEMON GROVE SANITATION DISTRICT APPROVING THE SEWER CAPACITY FEE INCREASE FROM $1,000 TO $3,509 EFFECTIVE JULY 1, 2018

WHEREAS, in February 2017, the District Board received a report regarding the progress that NBS Consultants (NBS) had regarding the sewer rate study; and

WHEREAS, the current capacity fee for the District is $1,000 and was first implemented in 1981; and

WHEREAS, capacity fees are one-time charges per equivalent dwelling unit (EDU) at the time the customer connects or expands on its existing connection to the District's sewer system; and

WHEREAS, the District's existing capacity fee does not accurately account for the cost a new user should pay for a new connection or for the cost an existing user should pay to increase its existing capacity to the sewer system; and

WHEREAS, NBS completed a detailed analysis of the District's projected customer growth and capacity needs, considered the costs to construct future improvements, and calculated a fee that will adequately afford any future capacity fee increasing costs; and

WHEREAS, the District Board finds it in the public interest to approve the sewer capacity fee analysis.

NOW, THEREFORE, BE IT RESOLVED that the District Board of the Lemon Grove Sanitation District approves the sewer capacity fee increase from $1,000 to $3,509 effective July 1, 2018.

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TECHNICAL MEMORANDUM

TO: MIKE JAMES, ASSISTANT CITY MANAGER / PUBLIC WORKS DIRECTOR
CITY OF LEMON GROVE

FROM: KIM BOEHLER, PROJECT MANAGER
GREG HENRY, CONSULTANT

SUBJECT: SEWER CAPACITY FEE ANALYSIS FOR SANITATION DISTRICT

DATE: NOVEMBER 10, 2017

PURPOSE

Lemon Grove Sanitation District (District) retained NBS to conduct a capacity fee study to ensure these fees reflect the cost of capital infrastructure needed to serve future customers. The purpose of this report is to summarize the results of our analysis, and presents the updated capacity fees[1] that are imposed on new or upsized connections. Capacity fees are one-time fees intended to reflect the cost of existing infrastructure and planned improvements available to future customers. Capacity fees are subject to California's Mitigation Fee Act (Government Code 66000 et seq.), which prescribes the means by which public agencies may impose development impact fees, including sewer capacity fees.

The attachment to this transmittal includes the quantitative nexus analysis used to develop the Capacity fee amount.

PURPOSE

Various methodologies have been and are currently used to calculate sewer capacity fees. The most common include establishing the fees based on:

- The value of existing (historical) system assets, often called a "buy-in" methodology.
- The value of planned future improvements, also called the "incremental" or "system development" methodology.
- A combination of these two approaches.

[1] *Otherwise known as system development charges or as connection fees.*

This analysis uses the combination approach, which requires future customers to pay both their fair share of existing system assets as well as their share of the planned future capital improvements needed to provide them with capacity in the District's sewer collection system. As a result, future customers connecting to the District's sewer system would enter as equal participants with regard to their financial commitment and obligations to the utility.

In calculating the sewer capacity fees, the replacement-cost-new-less-depreciation (RCNLD) value of existing system assets was used to calculate the buy-in component of the capacity fee. The Handy Whitman Index of Public Utility Construction Costs[2], which is a regionally specific construction index that tracks water utility construction costs, was used to estimate the replacement value of the existing system assets. The District can use this or the Engineering News Record Construction Cost Index going forward to adjust capacity fees in future years to offset the impacts of inflation.

PROJECTED FUTURE GROWTH AND FUTURE CUSTOMERS

The District's capital improvement plan, which is the basis for defining the costs of planned future capital assets, extends through build-out, in FY 2036/37.

As shown in **Figure 1**, there are currently 10,843 equivalent dwelling units (EDU's) connected to the sewer system. EDU's are a measure of a customers impact on the sewer system based upon that customer's expected flow and strength attributes[3]. Using District staff and Dexter Wilson Engineering's estimates there is capacity to connect 5,038 new EDU's to the District's sewer system. The future customers are expected to represent 31.7 percent of total EDU's.

Figure 1. Existing and Projected Customers

Demographic Statistics	Existing Total[1]	Projected Service Total[1]	Allocation Factors		Cumulative Change	
			Existing Customers	Future Customers	Number of Units	% Increase
Equivalent Dwelling Units	10,843	15,881	68.3%	31.7%	5,038	46.5%

1. Existing number of equivalent dwelling units is per the FY 2016/17 Sanitation Roll.

Source: 2017-10-04_CIP Cost Split for NBS

EXISTING AND PLANNED FUTURE ASSETS

The capital assets addressed in this Study include existing assets and planned capital improvements (i.e., the buy-in and incremental assets). Existing assets are often valued using "book value" (i.e., original cost less depreciation). However, replacement costs provide a more accurate estimate of these asset values. Ideally, replacement values would reflect the actual field condition of the assets (i.e., whether they are behind or ahead of the depreciation curve based on actual condition rather than the remaining years of expected life). Unfortunately, this information was not available for this study, and the estimated RCNLD value was developed as the cost basis for the new capacity fees.

For the purpose of this analysis, assets that have exceeded their useful life (as defined in the District's asset records) were considered to have no remaining value. The resulting RCNLD value of existing assets are summarized in Figure 2 as the System Buy-In Cost Basis.

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[2] *The Handy-Whitman Index of Public Utility Construction Costs, Whitman, Requardt & Assoc., LLP, Bulletin No. 184.*

[3] *Refer to Ordinance 26 for how EDU's are determined for various customer types.*

Figure 2. Summary of Existing Asset Values

Asset Category[1]	Original Values[1]		Asset Cost Less Depreciation	Replacement Values[2]		System Buy-In Cost Basis[3]
	Asset Cost	Depreciation to Date		Asset Cost	Depreciation to Date	
Sanitation District						
Land	$ 3,724	$ -	$ 3,724	$ 3,724	$ -	$ 3,724
Infrastructure	12,104,511	7,150,659	4,953,852	9,070,655	2,226,584	6,844,072
Equipment	1,352,732	942,439	410,293	1,046,348	610,259	436,089
Total Capital Facilities & Equipment	**$ 13,460,967**	**$ 8,093,098**	**$ 5,367,868**	**$10,120,727**	**$ 2,836,842**	**$ 7,283,885**
Metro Assets[4]	$ 20,340,000	$ -	$ 20,340,000	$20,340,000	$ -	$ 20,340,000

1. Source file: *PBC Fixed Asset Sanitation District FY15.xlsx*
2. Replacement values are calculated by escalating the original values (from District's fixed asset report) from service date to 2016 values using historical cost inflation factors from the Handy-Whitman Index of Public Utility Construction Costs, for Water Utility Construction in the Pacific Region.
3. System Buy-In are calculated by using the Replacment Value Asset Cost net of Replacment Value Depreciation.
4. Metero Asset Valuation provided by Dexter Wilson Engineering, Inc.
   Source: *4096_001.pdf* (email 9/21/17)

Most of the RCNLD costs were allocated to existing customers based on the 68.3-percent allocation factor shown in Figure 1 (and 31.7-percent allocation factor for future customers). The resulting allocation of exiting system assets to existing and future customers is shown in **Figure 3.**

Figure 3. Existing Asset Values Allocated to Future Customers

Asset Category[1]	System Buy-In Cost Basis[3]	Distribution of Cost Basis ($)			
		Existing Customers	Future Customers	Existing Customers	Future Customers
Sanitation District					
Land	$ 3,724	68.3%	31.7%	$ 2,542	$ 1,181
Infrastructure	6,844,072	68.3%	31.7%	4,672,836	2,171,236
Equipment	436,089	68.3%	31.7%	297,743	138,346
Total Capital Facilities & Equipment	**$ 7,283,885**	**68.3%**	**31.7%**	**$ 4,973,122**	**$ 2,310,763**
Metro Assets[4]	$ 20,340,000	68.3%	31.7%	$ 13,887,272	$ 6,452,728

1. Source file: *PBC Fixed Asset Sanitation District FY15.xlsx*
2. Replacement values are calculated by escalating the original values (from District's fixed asset report) from service date to 2016 values using historical cost inflation factors from the Handy-Whitman Index of Public Utility Construction Costs, for Water Utility Construction in the Pacific Region.
3. System Buy-In are calculated by using the Replacment Value Asset Cost net of Replacment Value Depreciation.
4. Metero Asset Valuation provided by Dexter Wilson Engineering, Inc.
   Source: *4096_001.pdf* (email 9/21/17)

The estimated cost of planned future improvements (in 2017 dollars) is used to calculate the system development component of the capacity fee. Dexter Wilson Engineering provided the list of capital projects as well as an allocation of the capacity provided by each improvement assigned to future customers. Future customers were allocated $3,679,478 of these future capital project costs, as shown in **Figure 4**.

Figure 4. Planned Asset Values Allocated to Future Customers

Capital Project Categories	System Development Cost Basis	% Allocation			Distribution of Cost Basis ($)		
		Exclude from Analysis	Existing Customers	Future Customers	Exclude from Analysis	Existing Customers	Future Customers
Condition-Based CIP Projects	$ 7,392,000	100%	0%	0%	$ 7,392,000	$ -	$ -
Capacity Based CIP Projects	7,466,000	0%	51%	49%	-	3,786,522	3,679,478
Other CIP Projects	15,219,000	99%	1%	0%	15,069,000	150,000	-
Total	**$ 30,077,000**	**75%**	**13%**	**12%**	**$ 22,461,000**	**$ 3,936,522**	**$ 3,679,478**

ADJUSTMENT TO THE COST BASIS

Before the Capacity fees are developed, an adjustment was applied to the cost basis to account for existing cash reserves. Existing cash reserves are treated as an asset, since they were contributed by existing customers and are available to pay for capital and/or operating costs of the sewer utility. The cash reserves are, in a sense, no different from any other system asset. The existing cash reserves allocated to future customers are summarized in **Figure 5**. This calculation also uses the same 31.7-percent allocation factor from Figure 1. The allocation of cash reserves to future customers is $5,236,906.

Figure 5. Cash Reserves Allocated to Future Customers

Description	Beginning Balance[1]	% Allocation		$ - Allocation	
		Existing Customers	Future Customers	Existing Customers	Future Customers
Cash Balance	$ 16,507,541	68.3%	31.7%	$ 11,270,635	$ 5,236,906

1. Beginning cash balance for the City's General Ledger Balance sheet cash for 15-00-1000 for FY 2016/17.

CALCULATED CAPACITY FEES

The sum of the existing and planned asset values (that is, the system buy-in and system development costs), along with the adjustment for existing cash reserves, defines the total cost basis allocated to future customers. **Figure 6** summarizes how this cost basis is developed.

Figure 6. Summary of Capacity fee Calculation

System Asset Values Allocated to New Customers	
Existing and Planned Assets:	
Existing Collection and Transmission System Buy-In	$ 2,310,763
Metro Assets	6,452,728
Planned Asset Improvements	3,679,478
Total: Existing & Future System Costs	$ 12,442,969
Adjustments to Cost Basis:	
Cash Reserves	$ 5,236,906
Total Adjusted Cost Basis for New Customers	**$ 17,679,875**

The total adjusted cost basis is then divided by the number of future customers, measured in Equivalent Dwelling Units (EDU's) expected to connect to the system (that is, the 5,038 EDU's shown in Figure 1).

This calculation results in the new maximum fee the District can charge for sewer connections (per EDU) as shown in **Figure 7**.

Figure 7. Calculated Sewer Capacity Fee

Summary of Capacity Fee Calculation	Adjusted System Cost Basis	Planned Additional EDU's	Maximum Base Capacity Fee Per EDU
Total Maximum Capacity Fee Per EDU	$ 17,679,875	5,038	$3,509

CONSULTANT RECOMMENDATIONS

NBS recommends the District take the following actions:

- **Approve and Accept this Study:** NBS recommends the District Board of Directors formally approve and adopt this Study and its recommendations, and proceed with the steps required to implement the new sewer capacity fees. This will provide documentation of the study and the basis for adopting the fees.
- **Implement New Capacity Fees:** Based on the analysis presented in this report, the District Board of Directors should implement the new capacity fee of $3,509 per EDU, as developed in this study. This is the maximum the District can charge per new connection.
- **Annually Review Fees and Revenue:** Any time an Agency adopts new rates and fees, they should be periodically reviewed — even more so when new capital facilities are planned and/or significant repair and replacements projects are undertaken. This will help ensure the revenue generated is sufficient to meet the costs of capital projects, the fiscal health of the District is maintained, and future customers bear their fair share of the District's sewer system costs.

PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

In preparing this report and the recommendations included herein, NBS has relied on a number of principal assumptions and considerations with regard to financial matters, number of customer accounts, conditions and events that may occur in the future. This information and assumptions, including the District's asset records, financial information and customer billing data (provided by District staff), were provided by sources we believe to be reliable, although NBS has not independently verified this data.

While we believe NBS' use of such information and assumptions is reasonable for the purpose of this report and its recommendations, some assumptions will invariably not materialize as stated herein or may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

Attachment C

TECHNICAL APPENDIX

Attachment C

CITY OF LEMON GROVE **EXHIBIT 1**
Sewer Capacity Fee Analysis
Demographic Data and Projections

EXISTING AND PROJECTED SERVICE NUMBERS:

Demographic Statistics	Existing Total[1]	Projected Service Total[1]	Allocation Factors		Cumulative Change	
			Existing Customers	Future Customers	Number of Units	% Increase
Equivalent Dwelling Units	10,843	15,881	68.3%	31.7%	5,038	46.5%

1. Existing number of equivalent dwelling units is per the FY 2016/17 Sanitation Roll.

Source: 2017-10-04_CIP Cost Split for NBS

CITY OF LEMON GROVE
Sewer Capacity Fee Analysis
Existing Capital Facilities and Equipment

EXHIBIT 2

EXISTING ASSETS, ORIGINAL AND REPLICATION VALUE

Asset Category[1]	Original Values[1]		Asset Cost Less Depreciation	Replacement Values[2]		System Buy-In Cost Basis[3]
	Asset Cost	Depreciation to Date		Asset Cost	Depreciation to Date	
Sanitation District						
Land	$ 3,724	$ -	$ 3,724	$ 3,724	$ -	$ 3,724
Infrastructure	12,104,511	7,150,659	4,953,852	9,070,655	2,226,584	6,844,072
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Total Capital Facilities & Equipment	**$ 13,460,967**	**$ 8,093,098**	**$ 5,367,868**	**$ 10,120,727**	**$ 2,836,842**	**$ 7,283,885**
Metro Assets[4]	$ 20,340,000	$ -	$ 20,340,000	$ 20,340,000	$ -	$ 20,340,000

EXISTING ASSETS, ALLOCATION TO EXISTING AND FUTURE CUSTOMERS:

Asset Category[1]	System Buy-In Cost Basis[3]	Allocation Basis (%)			Distribution of Cost Basis ($)		
		Exclude from Analysis	Existing Customers	Future Customers	Exclude from Analysis	Existing Customers	Future Customers
Sanitation District							
Land	$ 3,724	0.0%	68.3%	31.7%	$ -	$ 2,542	$ 1,181
Infrastructure	6,844,072	0.0%	68.3%	31.7%	-	4,672,836	2,171,236
Equipment	436,089	0.0%	68.3%	31.7%	-	297,743	138,346
Total Capital Facilities & Equipment	**$ 7,283,885**	**0.0%**	**68.3%**	**31.7%**	**$ -**	**$ 4,973,122**	**$ 2,310,763**
Metro Assets[4]	$ 20,340,000	0.0%	68.3%	31.7%	$ -	$ 13,887,272	$ 6,452,728

1. Source file: *PBC Fixed Asset Sanitation District FY15.xlsx*
2. Replacement values are calculated by escalating the original values (from District's fixed asset report) from service date to 2016 values using historical cost inflation factors from the Handy-Whitman Index of Public Utility Construction Costs, for Water Utility Construction in the Pacific Region.
3. System Buy-In are calculated by using the Replacment Value Asset Cost net of Replacment Value Depreciation.

Attachment C

CITY OF LEMON GROVE **EXHIBIT 4**

Sewer Capacity Fee Analysis

Allocation of Cash Reserves and Outstanding Debt to Existing and Future Services

ALLOCATION OF CASH RESERVES TO EXISTING AND FUTURE USERS:

Description	Beginning Balance[1]	% Allocation			$ - Allocation		
		Exclude from Analysis	Existing Customers	Future Customers	Exclude from Analysis	Existing Customers	Future Customers
Cash Balance	$ 16,507,541	0%	68.3%	31.7%	$ -	$ 11,270,635	$ 5,236,906

1. Beginning cash balance for the City's General Ledger Balance sheet cash for 15-00-1000 for FY 2016/17.

CITY OF LEMON GROVE
Sewer Capacity Fee Analysis
Planned Capital Facilities and Asset Improvements

EXHIBIT 5

PLANNED CAPITAL IMPROVEMENT COSTS, ALLOCATED TO EXISTING AND FUTURE CUSTOMERS:

Capital Project Description	Current Cost Estimate ($2017)[1]	External Funding	Year to be Completed	System Development Cost Basis	% Allocation			Distribution of Cost Basis ($)		
					Exclude from Analysis	Existing Customers	Future Customers	Exclude from Analysis	Existing Customers	Future Customers
Condition-Based CIP Projects										
Miscellaneous Pipeline Repairs Project	$ 416,000	$ -	FY17/18	$ 416,000	100%	0.0%	0.0%	$ 416,000	$ -	$ -
Miscellaneous Manhole Repairs	170,000	-	FY21/22	170,000	100%	0.0%	0.0%	170,000	-	-
Skyline Drive Replacement Project	868,000	-	FY19/20	868,000	100%	0.0%	0.0%	868,000	-	-
Bakersfield East Replacement Project	698,000	-	FY18/19	698,000	100%	0.0%	0.0%	698,000	-	-
Mt. Vernon to Shirley Lane Lining Project	979,000	-	FY22/23	979,000	100%	0.0%	0.0%	979,000	-	-
MacArthur Drive Replacement Project	141,000	-	FY17/18	141,000	100%	0.0%	0.0%	141,000	-	-
San Altos Lining Project	1,335,000	-	FY23/24	1,335,000	100%	0.0%	0.0%	1,335,000	-	-
Broadway South Repair Project	482,000	-	FY20/21	482,000	100%	0.0%	0.0%	482,000	-	-
Broadway South Repair Project	-	-		-	100%	0.0%	0.0%	-	-	-
Washington Street Repair Project	119,000	-	FY17/18	119,000	100%	0.0%	0.0%	119,000	-	-
Arcadia Avenue Replacement Project	577,000	-	FY19/20	577,000	100%	0.0%	0.0%	577,000	-	-
Arcadia Avenue Replacement Project	-	-		-	100%	0.0%	0.0%	-	-	-
Skyline at Mt. Vernanon Repair Project	282,000	-	FY20/21	282,000	100%	0.0%	0.0%	282,000	-	-
Skyline at Mt. Vernanon Repair Project	-	-		-	100%	0.0%	0.0%	-	-	-
Broadway East Repair Project	96,000	-	FY17/18	96,000	100%	0.0%	0.0%	96,000	-	-
Baldwin, Roy, Kempft Repair Project	868,000	-	FY21/22	868,000	100%	0.0%	0.0%	868,000	-	-
Baldwin, Roy, Kempft Repair Project	-	-		-	100%	0.0%	0.0%	-	-	-
Circle Drive Repair Project	50,000	-	FY17/18	50,000	100%	0.0%	0.0%	50,000	-	-
Cinderella Place Replacement Project	134,000	-	FY21/22	134,000	100%	0.0%	0.0%	134,000	-	-
Taft Street Replacement Project	121,000	-	FY21/22	121,000	100%	0.0%	0.0%	121,000	-	-
Mt. Vernon St. Replacement Project	56,000	-	FY21/22	56,000	100%	0.0%	0.0%	56,000	-	-
Sub-Total	7,392,000	-	-	7,392,000	100%	0%	0%	7,392,000	-	-

Attachment C

CITY OF LEMON GROVE
Sewer Capacity Fee Analysis
Planned Capital Facilities and Asset Improvements

EXHIBIT 5

PLANNED CAPITAL IMPROVEMENT COSTS, ALLOCATED TO EXISTING AND FUTURE CUSTOMERS:

Capital Project Description	Current Cost Estimate ($2017)[1]	External Funding	Year to be Completed	System Development Cost Basis	% Allocation			Distribution of Cost Basis ($)		
					Exclude from Analysis	Existing Customers	Future Customers	Exclude from Analysis	Existing Customers	Future Customers
Capacity Based CIP Projects										
I&I Reduction Project	$ 200,000	$ -	FY17/18	$ 200,000	0%	100.0%	0.0%	$ -	$ 200,000	$ -
Federal Boulevard South Upgrade Project	1,859,000	-	FY26/27	1,859,000	0%	62.0%	38.0%	-	1,158,000	701,000
Federal Boulevard North Upgrade Project	1,349,000	-	FY24/25	1,349,000	0%	34.0%	66.0%	-	458,000	891,000
Broadway Replacement Plan	1,010,000	-	FY23/24	1,010,000	0%	15.0%	85.0%	-	154,000	856,000
Central Main Street Replacement Project	1,577,000	-	FY27/28	1,577,000	0%	61.0%	39.0%	-	962,522	614,478
Olive Street Upgrade Project	-	-		-	0%	0.0%	0.0%	-	-	-
DVSP Upgrade Project	320,000	-	FY25/26	320,000	0%	0.0%	100.0%	-	-	320,000
Madera Street Pipeline Replacement Project	35,000	-	FY19/20	35,000	0%	100.0%	0.0%	-	35,000	-
Ensenada Street Pipeline Replacement Project	719,000		FY26/27	719,000	0%	100.0%	0.0%	-	719,000	-
Permanent Meter Evaluation Project	100,000	-	FY17/18	100,000	0%	100.0%	0.0%	-	100,000	-
Broadway East Upgrade Project	297,000	-	FY27/28	297,000	0%	0.0%	100.0%	-	-	297,000
Sub-Total	**7,466,000**	-		**7,466,000**	**0%**	**51%**	**49%**	-	**3,786,522**	**3,679,478**
Other CIP Projects										
Central Ave Pump Station Project	$ 150,000	$ -	FY18/19	$ 150,000	0%	100.0%	0.0%	$ -	$ 150,000	$ -
Future Age-and Condition-Based Replacement	15,069,000	-	FY36/37	15,069,000	100%	0.0%	0.0%	15,069,000	-	-
Sub-Total	**15,219,000**	-		**15,219,000**	**99%**	**1%**	**0%**	**15,069,000**	**150,000**	-
Total	**$ 30,077,000**	**$ -**		**$ 30,077,000**	**74.7%**	**13.1%**	**12.2%**	**$ 22,461,000**	**$ 3,936,522**	**$ 3,679,478**

1. Source: *2017-10-04_CIP Cost Split for NBS.xlsx.*

CITY OF LEMON GROVE
Sewer Capacity Fee Analysis
Unit Cost Calculation

EXHIBIT 6

DEVELOPMENT OF THE MAXIMUM CAPACITY FEE PER EDU:

System Asset Values Allocated to New Customers	
Existing and Planned Assets:	
Existing Collection and Transmission System Buy-In[1]	$ 2,310,763
Metro Assets[1]	6,452,728
Planned Asset Improvements[2]	3,679,478
Total: Existing & Future System Costs	$ 12,442,969
Adjustments to Cost Basis:	
Cash Reserves	$ 5,236,906
Total Adjusted Cost Basis for New Customers	**$ 17,679,875**

Summary of Capacity Fee Calculation	Adjusted System Cost Basis	Planned Additional EDU's[3]	Maximum Base Capacity Fee Per EDU
Total Maximum Capacity Fee Per EDU	**$ 17,679,875**	**5,038**	**$3,509**

1. Refer to Exhibits 2 and 3 for detail of existing assets.
2. Refer to Exhibit 5 for detail related to planned assets.
3. Refer to Exhibit 1 (Demographics) for growth projections.

Attachment D

Mike James

From: Rich
Sent: Tuesday, May 1, 2018 5:33 PM
To: Mike James
Subject: Lemon Grove Sanitation District - Recommendation to Amended Proposed Sewer Capacity Fee Study

May 1st, 2018

Mike James
Assistant City Manager / Public Works Director
City of Lemon Grove, California
Public Works Department

Mr. James,

After reviewing the Lemon Grove Sanitation District Sewer Capacity Fee study that You provided to me at the public review and feedback meeting in April 2018, it is recommended that the increase be approved, but with the implementation occurring in three phases over the next three fiscal years.

The proposed $3,509 revised sewer capacity fee value represents about a 3.45% compounded annual increase of the 1981 $1,000.00 fee. Since 1981 the Consumer Price Index-U (All Urban Consumers) has increased from a 1981 value of 80.1 to a 2018 value of 249.55 or 4.92 % compounded annually. Given this comparison, the increase is justified.

Even though justified by national consumer inflation, the increase is a one-time 251% increase for dwelling units combined with a change from per Lateral to per Equivalent Dwelling Unit: a possible 602% increase for duplex residences. As an incentive to stimulate greatly needed infill-development in Lemon Grove Neighborhoods and soften the impact, it is recommended that "advertised" increases of not more than $1,000.00 per year, each, for 2018 & 2019 and $509 beginning in 2020 be adopted for implementation by the Sanitation District.

In summary, I encourage the agency to adopt a gradual capacity fee increase over 2018, 2019 & 2020 as an incentive to stimulate greatly needed infill-development in Lemon Grove Neighborhoods for traditional Lemon Grove family-oriented residences.

Richard Hammett

City of Lemon Grove Business Owner - Licenses # and #

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